

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 1049 – SB 999

March 30, 2015

**SUMMARY OF ORIGINAL BILL:** Enacts the Tennessee Choice and Opportunity Scholarship Act. Authorizes eligible students to apply for and receive scholarships to attend participating non-public schools. Requires students to meet certain eligibility requirements including, but not limited to, being zoned for or currently attending a school that is identified as being in the bottom five percent of schools in overall achievement data and meeting certain age and income requirements. Requires non-public schools to provide annual notice to the Department of Education (DOE) of their intent to participate and to comply with all other participation requirements.

Requires the DOE to administer the program, and sets forth specific departmental administrative tasks including, but not limited to, providing annual notice of students' eligibility to parents; determining and approving initial and continuing eligibility for participating schools; and remitting scholarship payments to participating schools. Authorizes scholarship students to enroll in another participating school without loss of eligibility, if a participating school is deemed ineligible. Sets forth the procedures that shall be followed if the number of eligible students exceeds the number of scholarships awarded at a specific school for a specific grade level, and if there are scholarships available after all possible matches have been made between participating schools and eligible students.

Requires the annual scholarship amount to be the lesser of the participating school's annual tuition and fees or the amount of the required state and local Basic Education Program (BEP) funding per pupil. Requires students receiving the scholarship to continue to be counted toward the average daily membership (ADM) of the local education agency (LEA). Requires LEAs to continue to fund their portion of the required BEP per pupil expenditure (PPE) for participating students. Authorizes LEAs to retain any local funding above and beyond the BEP local match requirement. Requires any remaining funds to be retained by the DOE and the LEA, with specific amounts based on the LEA's state and local BEP funding share division, if a participating school's tuition and fees are less than the required state and local BEP per pupil expenditure (PPE).

Caps the scholarship program for LEAs with a school that is in the bottom five percent of achievement at 5,000 scholarships for FY15-16; 7,500 scholarships in FY16-17; and 10,000 scholarships in FY17-18; and 20,000 scholarships in FY18-19 and subsequent fiscal years.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$185,000

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Other Fiscal Impact – For local education agencies that have schools in the bottom five percent of achievement and are mandated to participate in the statewide scholarship program, the shift of state and required local BEP funding from these local education agencies to the non-public participating schools is estimated as follows: \$16,570,000 in FY15-16; \$25,473,800 in FY16-17; \$34,815,000 in FY17-18; and an amount exceeding \$69,630,000 in FY18-19 and subsequent years.

LEAs with participating students will be relieved of the long-term educational cost burden of educating such students. Using the third year of the statewide program as the baseline, the cost burden relieved in FY17-18 is reasonably estimated to be \$24,275,000. This amount will increase in FY18-19 and each subsequent year. The long-term result of such cost burden relief could be a permissive decrease in local expenditures, a permissive reallocation of local funding, or a permissive cost avoidance of local expenditures. Cost burden relief may also result in a higher per pupil expenditure for students that remain within an LEA school. An LEA's capacity to make any such permissive choice depends on the number and dispersion of students that participate in the scholarship program. If the number of participating students is small and widely dispersed across grade levels it is less likely that any such permissive choice could be implemented, but more likely if the number is large and concentrated in just a few grades.

**SUMMARY OF AMENDMENT (004539):** Deletes the words “non-public school” in Section 1, § 49-1-1202(4) of the bill and authorizes participating students to attend a public or non-public school.

## **FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

### **Increase State Expenditures - \$185,000**

**Other Fiscal Impact – For local education agencies that have schools in the bottom five percent of achievement and are mandated to participate in the statewide scholarship program, the shift of state and required local BEP funding from these local education agencies to another LEA with a participating public school or a participating non-public school is estimated as follows: \$16,570,000 in FY15-16; \$25,473,800 in FY16-17; \$34,815,000 in FY17-18; and an amount exceeding \$69,630,000 in FY18-19 and subsequent years.**

**LEAs with participating students will be relieved of the long-term educational cost burden of educating such students. Using the third year of the statewide program as the baseline, the cost burden relieved in FY17-18 is reasonably estimated to be \$24,275,000. This amount will increase in FY18-19 and each subsequent year. The long-term result of such cost burden relief could be a permissive decrease in local expenditures, a permissive reallocation of local funding, or a permissive cost avoidance of local expenditures. Cost burden relief may also result in a higher per pupil expenditure for students that**

**remain within an LEA school. An LEA's capacity to make any such permissive choice depends on the number and dispersion of students that participate in the scholarship program. If the number of participating students is small and widely dispersed across grade levels it is less likely that any such permissive choice could be implemented, but more likely if the number is large and concentrated in just a few grades.**

Assumptions relative to state expenditures:

- DOE will require two new positions to administer the program beginning in FY15-16. One position will require a salary of \$80,000 with benefits of \$19,536 for a total of \$99,356. A second position will require a salary of \$60,000 with benefits of \$14,652 for a total of \$74,652.
- An additional increase in state expenditures of \$11,000 for travel, administrative costs, printing, and other expenses.
- The total recurring increase in state expenditures for personnel is estimated to be \$185,008 (\$99,356 + \$74,652 + \$11,000).

Assumptions relative to enrollment, scholarship amounts, and program estimates:

- The statewide scholarship program will begin in the fall of 2015.
- Though the exact number of annually participating students is unknown, it is reasonably estimated that a minimum of 50 percent of the cap for the statewide program will be filled each year, beginning in FY15-16.
- For the purposes of this fiscal note, the required state and local BEP expenditures are utilized as the scholarship amount with an estimated scholarship growth of 2.5% annually.
- Statewide Program Student Enrollment Estimates:
  - In FY15-16, an estimated 2,500 students will participate.
  - In FY16-17, an estimated 3,750 students will participate.
  - In FY17-18, an estimated 5,000 students will participate.
  - In FY18-19 and subsequent years, over 10,000 students will participate.
- Statewide Program Scholarship Estimates:
  - In FY15-16, the scholarship is estimated to be \$6,628 per pupil.
  - In FY16-17, the scholarship is estimated to be \$6,793 per pupil.
  - In FY17-18, the scholarship is estimated to be \$6,963 per pupil.
  - In FY18-19 and subsequent years, the scholarship is estimated to exceed \$6,963 per pupil.
- Total Statewide Program Estimates:
  - In FY15-16, an estimated \$16,570,000 (\$6,628 x 2,500) will shift from LEAs to participating public and non-public schools.
  - In FY16-17, an estimated \$25,473,750 (\$6,793 x 3,750) will shift from LEAs to participating public and non-public schools.
  - In FY17-18, an estimated \$34,815,000 (\$6,963 x 5,000) will shift from LEAs to participating public and non-public schools.

- In FY18-19 and subsequent years, an amount estimated to exceed \$69,630,000 (\$6,963 x 10,000) will shift from LEAs to participating public and non-public schools.

#### Assumptions Relative to Cost Burden Relief for the Statewide Program:

- Educational cost burden is defined as variable costs necessary to educate students, such as teacher salaries, classroom expenditures, food service, transportation, etc.; it does not include building, maintenance, and other capital costs. In addition, cost burden relief is independent of the state and required local BEP per pupil expenditure that will shift to participating schools.
- The BEP maintenance of effort requires that local government continue to fund their LEA at the same level year-to-year unless there is a decrease in enrollment.
- Participating students will continue to be counted in LEA enrollment numbers, and LEAs will be required to continue providing funding based on the enrollment numbers that include participating students.
- Variable costs are estimated to remain fixed in the short-term, which is defined as two years for the purposes of this fiscal note.
- It is estimated that at least 70 percent of BEP funding is utilized to pay variable costs.
- The average variable cost burden per student is estimated to be \$4,855 (\$6,963 x 70%) in FY17-18.
- The total cost burden relief for FY17-18, as a result of the statewide program, is estimated to be \$24,275,000 (\$4,855 x 5,000); the cost burden relief will increase in FY18-19 and subsequent years.
- LEAs relieved of such cost burdens can utilize the funding in a variety of different ways; including a permissive decrease in local expenditures, a permissive cost avoidance for local expenditure increases, or a permissive reallocation of funding.
- A majority of LEAs are currently funding their students above and beyond the BEP local match requirement. This amount varies widely by LEA, but according to DOE, the average amount that LEAs will retain in FY15-16 is \$1,160 per pupil. This amount is estimated to increase at an average growth rate of 2.5% annually in each subsequent year.
- Each year, students leave and enter LEAs. As a result, LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population.
- LEAs will be able to use retained funding to offset any increase in local government expenditures or to use at their discretion for some other purpose.

#### CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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